

Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 03245 01 OF 02 261753Z

50

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 FAA-00 L-02 SS-15 NSC-05 /051 W

----- 060540

R 261740Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8274

INFO USMISSION USBERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION NATO BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 03245

E.O. 11652: N/A

TAGS: PFOR, EAIR, GW, WB, FR, US, UK

SUBJECT: IGS FARE INCREASE APPLICATION

REF: A. STATE 33784

1. SUMMARY: WE HAVE OBTAINED SOME ADVANCE ESTIMATES FROM PAA OFFICIALS ON THE FINANCIAL IMPACT OF THE PROPOSED SWAP AGREEMENT SUGGESTING THAT WITH A FARE INCREASE OF 7.9 PERCENT THE AIRLINE COULD REALIZE AN OPERATING PROFIT OF AROUND 13 PERCENT. THIS POSSIBILITY RAISES SOME QUESTIONS AS TO THE JUSTIFICATION FOR CONTINUING WITH THE PRESENT APPLICATION. A FINAL DECISION WILL, OF COURSE, HAVE TO AWAIT AN EVALUATION OF BOTH BA AND PAA'S REVISED DATA. END SUMMARY.

2. PAA OFFICIALS RUNNETTE AND CARLSON (HOME OFFICE RATES EXPERT) CALLED AT THE EMBASSY FEB. 24 TO REVIEW THE PRESENT STATE OF PLAY ON THE FARE INCREASE PROPOSAL. CARLSON SAID THAT HE HAD DECIDED TO STOP IN BONN ON HIS WAY TO A GENEVA CONFERENCE TO CONSULT ON THE FORMULATION OF THE ADDITIONAL FINANCIAL AND OPERATING DATA THE EMBASSY HAD REQUESTED SEVERAL WEEKS BEFORE. ASST EMB
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 03245 01 OF 02 261753Z

CAA SUGGESTED THAT IDEALLY THE FOLLOWING NEW TABLES (IN

SO FAR AS READILY AVAILABLE) WOULD GREATLY STRENGTHEN OUR FARE PRESENTATION: A. ACTUAL 1974 OPERATING RESULTS; B. FORECAST 1975 RESULTS IF NO FARE INCREASE OR ROUTE SWAP TOOK PLACE; C. THE SAME ASSUMING A ROUTE SWAP BUT NO FARE INCREASE AND D. FORECAST 1975 DATA TAKING ACCOUNT OF THE PROPOSED FARES AND THE ROUTE SWAP.

3. CARLSON AGREED THAT ABOVE INFORMATION WAS ESSENTIAL FOR A SOUND FARE PROPOSAL AND SAID HE WOULD BE ABLE TO PROVIDE THE DATA IN AN APPROPRIATE FORMAT WITHIN TWO WEEKS. HE EXPECTED THAT ACTUAL RESULTS FOR 1974 WOULD REFLECT A SOMEWHAT REDUCED OPERATING PROFIT FROM THAT ESTIMATED IN OCTOBER - FOUR PERCENT AS COMPARED TO SIX PERCENT. SIMILARLY, THE 1975 FORECAST (B. ABOVE) WOULD YIELD SOMETHING LESS THAN THREE PERCENT DUE TO THE REVISION DOWNWARD OF PASSENGER VOLUME PROJECTIONS. ON THE OTHER HAND, 1975 FORECASTS WITH A SWAP AGREEMENT BUT NO FARE INCREASE WOULD SHOW AN OPERATING PROFIT OF BETWEEN EIGHT AND TEN PERCENT. WITH BOTH IN EFFECT HE COULD ENVISAGE A SURPLUS OF FROM 11 TO 13 PERCENT. HE STRESSED THAT THESE FIGURES SHOULD BE VIEWED AS VERY ROUGH ESTIMATES SINCE HIS RAW DATA HAD NOT AS YET BEEN WORKED OUT ON A CALENDER YEAR BASIS AS REQUIRED IN THE BCATAG AND ASSUMED A MAY 1 INTRODUCTION OF THE SWAP AGREEMENT.

4. DURING FURTHER DISCUSSION, CARLSON MADE CLEAR THAT PAA FUEL PRICES HAD NOT RISEN NOTICEABLY SINCE JULY 1974 AND THAT THE UNEXPECTEDLY LOW PROFIT YIELD AS WELL AS HALF THE FUEL BILL (MOST RECENTLY ESTIMATED AT A TOTAL OF THREE MILLION DOLLARS) WAS DUE TO SOMEWHAT INCREASED

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 03245 02 OF 02 261756Z

50

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 FAA-00 L-02 SS-15 NSC-05 /051 W

----- 060635

R 261740Z FEB 75

FM AMEMBASSY BONN
TO SECSTATE WASHDC 8275
INFO USMISSION USBERLIN
AMEMBASSY LONDON
AMEMBASSY PARIS
USMISSION NATO BRUSSELS

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 03245

FLYING DURING THE LATER PART OF THE YEAR WITH POOR LOAD FACTORS. HE THEREFORE BELIEVED THAT THE FUEL PRICE ARGUMENT ON WHICH BA BASED SO MUCH OF ITS CASE WAS A DEFINITE NON-STARTER FOR PAA. IN CARLSON'S VIEW, PAA'S JUSTIFICATION FOR A 7.9 PERCENT FARE INCREASE LAY IN THE FACT THAT THE JUNE FUEL SURCHARGE FELL SHORT OF COVERING THE CARRIER'S FUEL BILL FOR 1974. MOREOVER, THE UNEXPECTEDLY LOW PROFIT LEVEL FOR THE YEAR WARRANTED A BETTER THAN USUAL YIELD FOR 1975. ALONG THESE LINES, ASST. EMB CAA POINTED OUT THAT EARLIER CAA ASSUMPTIONS (PUT FORTH PRIMARILY BY THE BRITISH) THAT COST SAVINGS FROM THE SWAP AGREEMENT WOULD NOT IN MAJOR PART BE REALIZED DURING 1975 BECAUSE OF SEVERANCE PAYMENTS ETC. DID NOT APPEAR TO BE BORNE OUT BY PAA'S FORECASTS.

5. CARLSON CONCLUDED BY SAYING PAA STILL HOPED TO ACHIEVE TO FULL 7.9 PERCENT - BASED PRIMARILY ON BA'S CONSIDERABLY LESS ADVANTAGEOUS PROSPECTS - BUT IF TOO MUCH RESISTANCE WAS ENCOUNTERED HE PERSONALLY BELIEVED THE AIRLINE WOULD SETTLE FOR LESS. ASST EMB CAA SAID IT WAS PERHAPS TOO EARLY TO REACH ANY CONCLUSIONS SINCE IT WAS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 03245 02 OF 02 261756Z

STILL NECESSARY TO EXAMINE BA'S REVAMPED DATA AS WELL AS PAA'S DETAILED FORECASTS. FURTHERMORE, UNCERTAINTIES RE THE FINAL OUTCOME OF THE SWAP AGREEMENT CONSIDERATION AND ITS DATE OF INTRODUCTION REPRESENTED YET ANOTHER VARIABLE IN THE EQUATION.

6. COMMENT: IF CARLSON'S ESTIMATES ARE FURTHER CONFIRMED BY PAA DATA WE WOULD HAVE OUR DOUBTS RE THE JUSTIFICATION FOR CONTINUING TO SEEK A FARE INCREASE AT THE PRESENTLY PROPOSED LEVEL. A FINAL DECISION WILL, OF COURSE, HAVE TO AWAIT A RE-EVALUATION OF THE NEW DATA FROM BOTH AIRLINES. A DELAY MUCH BEYOND MAY 1 IN THE INTRODUCTION OF THE SWAP AGREEMENT COUPLED WITH A CLEAR INDICATION THAT THE NEW COMBINED IGS DATA SUPPORTS THE FARE INCREASE COULD JUSTIFY PROCEEDING WITH THE ORIGINAL FARE

APPLICATION. MOREOVER, WE HAVE NOTED A FAIRLY CONSISTENT
PAA TENDENCY TO BE OVERLY OPTIMISTIC IN ITS FORECASTS.

HILLENBRAND

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AIR ROUTES, AIR FARES, NEGOTIATIONS, AVIATION AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN03245
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750067-1125
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750212/aaaaaknt.tel
Line Count: 173
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 33784
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by KelleyW0>; APPROVED <17 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IGS FARE INCREASE APPLICATION
TAGS: PFOR, EAIR, GE, WB, FR, US, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006